

**REPORT OF THE AUDIT OF THE
FORMER LESLIE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2001**



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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER LESLIE COUNTY SHERIFF

**For The Year Ended
December 31, 2001**

The Auditor of Public Accounts has completed the former Leslie County Sheriff's audit for the year ended December 31, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees increased by \$18,539 from the prior calendar year, resulting in excess fees of \$23,178 as of December 31, 2001. Revenues increased by \$16,857 from the prior year and disbursements decreased by \$1,682.

Report Comments:

- The Former Sheriff Should Have Prepared and Published An Annual Financial Statement
- The Former Sheriff Should Have Prepared A Schedule Of Expenditures Of Federal Awards
- Lacks Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Kenneth Witt, Leslie County Judge/Executive

Honorable James F. Davidson, Former Leslie County Sheriff

Honorable John Morgan, Leslie County Sheriff

Members of the Leslie County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former County Sheriff of Leslie County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Sheriff for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Kenneth Witt, County Judge/Executive
Honorable James F. Davidson, Former Leslie County Sheriff
Honorable John Morgan, Leslie County Sheriff
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In accordance with Government Auditing Standards, we have also issued our report dated May 21, 2003, on our consideration of the former County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Former Sheriff Should Have Prepared And Published An Annual Financial Statement
- The Former Sheriff Should Have Prepared A Schedule Of Expenditures Of Federal Awards
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 21, 2003

LESLIE COUNTY
JAMES F. DAVIDSON, FORMER COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2001

Receipts

Federal Grants		\$	79,434
State Grants			18,625
State Fees For Services:			
Finance and Administration Cabinet	\$	4,655	
Cabinet For Human Resources		<u>160</u>	4,815
Circuit Court Clerk:			
Sheriff Security Service	\$	5,298	
Fines and Fees Collected		2,075	
Court Ordered Payments		<u>2,930</u>	10,303
Fiscal Court			5,769
County Clerk - Delinquent Taxes			6,668
Commission On Taxes Collected			128,633
Fees Collected For Services:			
Auto Inspections	\$	830	
Accident and Police Reports		65	
Serving Papers		9,200	
Carrying Concealed Deadly Weapon Permits		<u>5,455</u>	15,550
Other:			
Lake Patrol	\$	9,866	
Travel Reimbursement		384	
Add On Fees		23,996	
Miscellaneous		<u>1,916</u>	36,162
Interest Earned			3,041
Borrowed Money:			
State Advancement			<u>40,000</u>
Total Receipts		\$	349,000

The accompanying notes are an integral part of the financial statement.

LESLIE COUNTY
 JAMES F. DAVIDSON, FORMER COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2001
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$	154,416
Employee Benefits-		
Life Insurance	124	
Employer's Share Social Security	4,648	
Employer's Share Retirement	4,825	
Worker's Compensation	1,712	
Employer Paid Health Insurance	<u>5,008</u>	16,317
Contracted Services-		
Contracted Services	1,822	
Vehicle Maintenance and Repairs	<u>11,163</u>	12,985
Materials and Supplies-		
Office Materials and Supplies	10,694	
Uniforms	1,651	
Carrying Concealed Deadly Weapon Permits	<u>2,620</u>	14,965
Other Charges-		
Conventions and Travel	1,282	
Dues	625	
Training	291	
Miscellaneous	<u>393</u>	2,591
Capital Outlay-		
Office Equipment	\$ 6,851	
Vehicles	16,851	
Investigative Equipment	<u>1,000</u>	24,702
Debt Service:		
State Advancement		<u>40,000</u>
Total Disbursements	\$	<u>265,976</u>

The accompanying notes are an integral part of the financial statement.

LESLIE COUNTY
JAMES F. DAVIDSON, FORMER COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
For The Year Ended December 31, 2001
(Continued)

Net Receipts	\$ 83,024
Less: Statutory Maximum	<u>59,846</u>
Excess Fees Due County for 2001	\$ 23,178
Payment to County Treasurer - February 18, 2002	17,147
Payment to County Treasurer - December 18, 2002	<u>6,031</u>
Balance Due at Completion of Audit	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statement.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months of the year and 6.41 percent for the last six months of the year.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff's office and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2001, the former Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the former Sheriff's agent in the former Sheriff's name, or provided surety bond which named the former Sheriff as beneficiary/obligee on the bond.

Note 4. Leases

The Sheriff's office is committed to the following lease agreements as of December 31, 2001:

Item Purchased	Monthly Payment	Term of Agreement	Ending Date	Principal Balance December 31, 2001
Jeep Cherokee	\$ 644	36 months	June 30, 2002	\$ 2,695
Jeep Cherokee	\$ 644	36 months	June 30, 2002	\$ 2,695

Note 5. Forfeiture Account

The Leslie County Sheriff's office maintains an official bank account for monies obtained from seizure and sale of property used in illegal drug activities. This fund is to be used for operating expenses of the Leslie County Sheriff's department. This account had a beginning balance of \$11,416 as of January 1, 2001. During 2001, receipts totaled \$248 and there were no disbursements. The ending balance was \$11,664 as of December 31, 2001.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 6. Former Sheriff Ford Bowling

A. Fee Account Deficit

Former Sheriff Ford Bowling had a cumulative deficit of \$34,186 in his official fee account at the end of his term in office on December 31, 1998. This cumulative deficit is discussed in more detail in prior year audit reports.

B. Criminal Indictment and Civil Action

On October 4, 1995, a three-count indictment (95-CR-00056) was returned by the Leslie County Grand Jury charging former Sheriff Ford Bowling with failing to properly account for and disburse tax money collected by his office. This indictment related to former Sheriff Ford Bowling having a cumulative deficit of \$148,592 in his property tax account. The indictment was dismissed without prejudice on January 26, 1998. On February 28, 1996, a civil action (96-CI-00043) was filed by the Leslie County Fiscal Court and other taxing districts against former Sheriff Ford Bowling and his bonding companies. The civil action asked for a judgment that the appropriate amount of tax money, advertising costs, and interest and fees due and owing be paid to each taxing district and that excess fees due Leslie County Fiscal Court be paid. The civil action was dismissed on January 24, 2001.

COMMENTS AND RECOMMENDATIONS

LESLIE COUNTY
JAMES F. DAVIDSON, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2001

STATE LAWS AND REGULATIONS:

1. The Former Sheriff Should Have Prepared and Published An Annual Financial Statement

The former sheriff did not prepare an annual settlement of receipts, disbursements and excess fees and publish it within sixty (60) days after the close of the calendar year as required by KRS 424.220(6). In addition, the former sheriff did not present an annual settlement to the fiscal court for approval. We did find that the former sheriff submitted his quarterly financial statement to the fiscal court for approval. However, the quarterly financial statement and the annual settlement are two separate reports required under state law and the Uniform System of Accounts. We recommend that the sheriff's office prepare an annual financial statement, publish an annual financial statement within sixty (60) days after the close of the calendar year, and present an annual financial statement to the fiscal court for approval.

Former Sheriff Davidson's Response:

I was not aware of this. However, I had all of the information to do this.

2. The Former Sheriff Should Have Prepared A Schedule of Expenditures of Federal Awards

The former sheriff did not prepare a schedule of expenditures of federal awards. It is the responsibility of the sheriff's office to identify the total dollar amount of federal expenditures and to obtain a single audit if federal expenditures exceed \$300,000 during the year. Because of this, it is very important that the sheriff's office maintain a running total of federal grant expenditures and maintain detailed grant records. The former sheriff should have prepared a separate file for each grant. Within each file, the former sheriff should have maintained a breakdown of federal share, state share, and local share of grant expenditures. This information would then be used to compile the schedule of expenditures of federal awards at the end of the year. We strongly recommend that the sheriff's office implement these procedures immediately to ensure that their schedule of expenditures of federal awards is accurate.

Former Sheriff Davidson's Response:

I was not aware of that a special report was required. However, we had all of the information to prepare the report.

LESLIE COUNTY
JAMES F. DAVIDSON, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2001
(Continued)

INTERNAL CONTROL – MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically, and on a surprise basis, compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.
- The Sheriff should periodically, and on a surprise basis, compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should periodically, and on a surprise basis, compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Former Sheriff Davidson's Response:

I did these procedures but did not document in written format.

PRIOR YEAR:

- The Former Sheriff Should Have Prepared And Published An Annual Financial Statement
- The Former Sheriff Should Have Prepared A Schedule of Expenditures Of Federal Awards
- Lacks Adequate Segregation Of Duties

These were not corrected and were repeated in the current year.

- The Sheriff's Office Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Former Sheriff's Official Bond Should Have Been Recorded In The County Clerk's Office

These findings were corrected.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the former Leslie County Sheriff for the year ended December 31, 2001, and have issued our report thereon dated May 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Leslie County Sheriff's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Prepared And Published An Annual Financial Statement
- The Former Sheriff Should Have Prepared A Schedule Of Expenditures Of Federal Awards



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Leslie County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 21, 2003

